

CPP ANNUAL USE OF CAPITAL SURVEY - 2010



NAME OF INSTITUTION

(Include Holding Company Where Applicable)

Valley Financial Corporation

Point of Contact:	Ellis L. Gutshall, President/CEO	RSSD: (For Bank Holding Companies)	2314327
UST Sequence Number:	169	Docket Number: (For Thrift Holding Companies)	
CPP/CDCI Funds Received:	16,019,000	FDIC Certificate Number: (For Depository Institutions)	34019
CPP/CDCI Funds Repaid to Date:		Credit Union Charter Number: (For Credit Unions)	
Date Funded (first funding):	December 12, 2008	City:	Roanoke
Date Repaid ¹ :	N/A	State:	Virginia

¹If repayment was incremental, please enter the most recent repayment date.

American taxpayers are quite interested in knowing how banks have used the money that Treasury has invested under the Capital Purchase Program (CPP) and Community Development Capital Initiative (CDCI). To answer that question, Treasury is seeking responses that describe generally how the CPP/CDCI investment has affected the operation of your business. We understand that once received, the cash associated with TARP funding is indistinguishable from other cash sources, unless the funds were segregated, and therefore it may not be feasible to identify precisely how the CPP/CDCI investment was deployed or how many CPP/CDCI dollars were allocated to each use. Nevertheless, we ask you to provide as much information as you can about how you have used the capital Treasury has provided, and how your uses of that capital have changed over time. Treasury will be pairing this survey with a summary of certain balance sheet and other financial data from your institution's regulatory filings, so to the extent you find it helpful to do so, please feel free to refer to your institution's quarterly call reports to illustrate your answers. This is your opportunity to speak to the taxpayers in your own words, which will be posted on our website.

What specific ways did your institution utilize CPP/CDCI capital? Check all that apply and elaborate as appropriate, especially if the uses have shifted over time. Your responses should reflect actions taken over the past year (or for the portion of the year in which CPP/CDCI funds were outstanding).

☒ **Increase lending or reduce lending less than otherwise would have occurred.**

During 2010, loans outstanding declined \$27mil from \$571 mil to \$544 mil or 4.7% as businesses and individuals continued to de leverage and reduce indebtedness. Loan demand for new investment and expansion remained tepid. CONTINUED ON PAGE TWO

☐ **To the extent the funds supported increased lending, please describe the major type of loans, if possible (residential mortgage loans, commercial mortgage loans, small business loans, etc.).**

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☒ **Increase securities purchased (ABS, MBS, etc.).**

During 2010, the Company increased its investment in MBS by \$41Mil, or 84%

☐ **Make other investments.**

☒ **Increase reserves for non-performing assets.**

During 2010, the Company's ALLL decreased from \$14.6 Mil to \$11.0 Mil due to improved NPA levels and reduction in problem credits in general. The loan loss provision expense in 2010 was \$1.1 Mil compared to \$15.2 Mil in 2009

☒ **Reduce borrowings.**

While not a direct use of CPP capital during 2010, borrowings declined from \$48 Mil to \$43 Mil, or 10%, as the Company continues to utilize increased core deposit growth to retire higher cost borrowings as they mature.

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☐ Increase charge-offs.

☐ Purchase another financial institution or purchase assets from another financial institution.

☒ Held as non-leveraged increase to total capital.

Capital ratios have continued to improve as earnings have improved and TRW assets have declined,.

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What actions were you able to avoid because of the capital infusion of CPP/CDCI funds?

NoneQUESTION #1 CONTINUED:Due to regulatory pressures to strengthen capital ratios, the preferred stock investment provided by the CPP did enable the Company to continue an active lending initiative.

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What actions were you able to take that you may not have taken without the capital infusion of CPP/CDCI funds?

None

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Please describe any other actions that you were able to undertake with the capital infusion of CPP/CDCI funds.

None noted